

Anonymous Loans by Pentagon Financing Arms to 14 Countries

By NEIL SHEEHAN
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WASHINGTON, July 23—The Defense Department has been using anonymous loans from the Export-Import Bank to finance arms sales in Latin America, the Middle East, North Africa and Southeast Asia.

Informants have disclosed that the \$591-million the Pentagon obtained from the bank between mid-1965 and last June 30 through so-called "country-X accounts" was lent to 14 countries for purchases of American armaments.

Under the country-X device, the bank opens a line of credit to the Defense Department arms salesman, Henry J. Kuss Jr., which Mr. Kuss lends to the country involved for the arms purchase.

The loans are guaranteed by

the Defense Department through its \$383-million revolving arms sales credit fund under a law that requires that only 25 per cent of the loan must be covered by the fund.

The extent of the bank's involvement in the arms traffic brought vigorous protests in Congress last week and has

held up action on legislation to extend the life of the Government-owned institution for five more years and expand its lending authority.

In closed hearings before the House Banking and Currency Committee last Monday, Harold Linder, the bank president, asserted that until that day he had not known nor wanted to know the names of the countries that had received the loans.

Five of the countries are in Latin America—Brazil, Argentina, Peru, Chile and Venezuela. Four are Middle Eastern countries—Iran, Saudi Arabia, Jordan and Israel. Three are in South and Southeast Asia—Pakistan, India and Malaysia. The North African country is Morocco. Taiwan is the 14th recipient.

In addition to the country-X loans since mid-1965, the Defense Department is believed to have outstanding about \$60-million in loans to underdeveloped countries that the Pentagon made directly from the revolving credit account or obtained from commercial banks.

The Export-Import Bank has also directly lent at Defense Department request since the fiscal year 1963, \$1.1-billion more to a number of developed countries, including Austria, Italy, Britain and Australia, for arms purchases from Mr. Kuss.

Over the last two fiscal years, arms loans have constituted more than 39 per cent of the bank's lending business, and senior administration officials have testified that the bank has made further commitments to lend \$1-billion more for weapons during the current and future fiscal years.

The exact amounts of the country-X loans to each of 14 aforementioned nations are unknown. It is also believed that some of the loans as of last June 30 were increments of large arms purchases that will require future loans to complete financing of the sales.

The informants, however, supplied some regional and local breakdown.

About 75 per cent of the country-X loans, they said, approximately \$450-million, went to the four Middle Eastern countries and Morocco.

The five Latin-American countries reportedly obtained about \$100-million. Brazil is understood to have received about \$43-million—Argentina about \$21-million and Venezuela approximately \$29-million, with the remaining \$7-million divided between Peru and Chile.

Approximately \$24-million, about 4 per cent, was lent to India and Pakistan, and the remainder of the \$591-million went to Malaysia and Taiwan.

Iran apparently obtained its loan as at least partial credit toward a \$200-million purchase in 1966 of F-4 Phantom jets, the most advanced of American operational fighter-bombers, and ground equipment. The loan to Saudi Arabia was ap

parently financed toward a purchase of \$120-million in Hawk anti-aircraft missiles and assorted other hardware.

Israel is believed to have obtained its loan for Hawk anti-aircraft missiles and tanks that Mr. Kuss sold the Israelis in 1965 and 1966. Jordan was apparently lent the money for the tanks and armored personnel carriers it obtained last year from the United States.

Argentina purchased 25 A-4 Skyhawk fighter-bombers from the United States in 1965 and Venezuela has reportedly been sold helicopters for use against the pro-Communist guerrillas there.

Morocco has been sold a squadron of F-5 Freedom fighters and Malaysia reportedly obtained a loan of about \$15-million for jet trainers and other equipment.

The loan to India is somewhat mystifying because until last May the Administration officially imposed an embargo on the shipment of so-called lethal military equipment to India and Pakistan. Shipments of what the Administration calls nonlethal equipment, such as radar and trucks, had been allowed.

Some military specialists consider the distinction specious because an armed force needs support equipment as well as guns and tanks to be effective.

A sizable number of Democrats and Republicans on the House and Senate Banking Committees are angry about the use of the bank to finance arms business, but they are even more disturbed by the fact that its funds have been employed to sell arms to countries involved in disputes with their neighbors.

They point out that the major portion the loans within the last two fiscal years, about \$450-million, went to the Middle East and North Africa, the most explosive areas.